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**KENYA DAIRY SECTOR
COMPETITIVENESS**

USAID KENYA DAIRY SECTOR COMPETITIVENESS PROGRAM

QUARTERLY PROGRESS REPORT
OCTOBER 2011 - DECEMBER 2011
623-C-00-08-00020-00

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The authors' views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development of the United States Government.

CONTENTS

LIST OF TABLES	1
LIST OF FIGURES	1
EXECUTIVE SUMMARY	3
1.0 INTRODUCTION	5
2.0 PROGRAM IMPLEMENTATION	7
2.1 COMPONENT ONE: ENHANCE CAPACITY FOR MILK AND PRODUCTION INPUT QUALITY CERTIFICATION AND MARKET PROMOTION.....	7
2.2 COMPONENT 2: DEVELOP DAIRY SMALLHOLDER BUSINESS ORGANIZATIONS.....	10
2.2.1 FACILITATED WORKING LINKAGES BETWEEN FARMERS THE SBOs WORKING WITH THE KDSC PROGRAM.....	11
2.3 COMPONENT 3: INCREASE AVAILABILITY OF DAIRY BUSINESS DEVELOPMENT SERVICES.....	14
2.4 ENVIRONMENTAL DEGRADATION MITIGATION MEASURES.....	16
2.5 GENDER AND YOUTH INTERVENTION.....	17
2.6 CHALLENGES.....	17
2.7 LESSONS LEARNT	18
2.8 WORK PLAN FOR YEAR 4.....	20
3.0 PERFORMANCE DATA TABLE	23
4.0 APPENDIX 1: FINANCIAL REPORT	26
APPENDIX 2: LETTERS OF APPRECIATION	27

List of Tables

Table 2: Work plan for Year 4	20
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List of Figures

Figure 1: Mr. Juma from KLBO talks to participants during MSWG meeting.....	8
Figure 2: Mr. Makongo, KDSCP Co-ordinator making his contribution in the DAC meeting.....	9
Figure 3: Performance of North Rift federation in terms of income.....	11
Figure 4: Rajiv Shah talking to a board member with Mulinge (KDSC COP) looking on in a suit.....	13
Figure 5: Rajiv Shah listens to IT Manager on the operations of IT systems in Limuru DFCS.....	14
Figure 6: Mr. Pascal Chairman MSWG who is also the Manager in charge of the meeting.....	16

List of Acronyms

APSK	Animal Production Society of Kenya
BDS	Business Development Services
CAIS	Center for Artificial Insemination Services
DTF	Dairy Task Force
DVO	District Veterinary Officer
ESADA	Eastern and Southern Africa Dairy Association
FHI	Family Health International
GMP	Good Management Practices
HACCP	Hazard Analysis and Critical Control Points
HPI	Heifer Project International
ICT	Information Communication and Technology
IPM	Integrated Pest Management
NKCC	New Kenya Cooperative Creameries
KDB	Kenya Dairy Board
KDSCP	Kenya Dairy Sector Competitiveness Program
KENDAPO	Kenya National Dairy Producers Organization
KENFAP	Kenya National Federation of Agricultural Producers
KLBO	Kenya Livestock Breeders Organization
LOL	Land O'Lakes
MBC	Milk Bulking Center
MOLFD	Ministry of Livestock Development
MOLD (DVS)	Ministry of Livestock, Department of Veterinary Services
MWG	Milkshed Working Group
NEMA	National Environment Management Authority
NGO	Non Governmental Organization
PCPB	Pesticide Control Products Board
PERSUAP	Pesticide Evaluation Report Safer Use Action Plan
PMO	Pasteurized Milk Ordinance
PMP	Performance Management Plan
RMC	Resource Mobilization Centre
SBO	Smallholder Business Organizations
SoW	Scope of Work
SITE	Strengthening Informal Sector Training and Enterprise
SNV	Netherlands Development Organization
SPs	Service Providers
USAID	United States Agency for International Development
WRUA	Water Resource Users Association
WWS	World Wide Sires Consortium

Executive Summary

This report summarizes the key activities implemented and the associated accomplishments for the USAID Kenya Dairy Sector Competitiveness (KDSC) program. The report covers the first quarter of fiscal year 2012 (Oct-Dec 2011)¹. The KDSC activities contribute to the achievement of intermediate results under USAID/Kenya Mission's SO7 on "Increasing Rural Households Income."

During the period under review, KDSC program continued to address sector challenges, constraints and stakeholder concerns in all the milksheds and has realized significant achievements. Program efforts in the quarter especially focused on putting in place sustainable solutions and to put in place sustainability measures as an exit strategy. During the quarter under review, KDSC successfully completed the development of the Dairy Farmers Training Manual. This is a resource that is intended to enable dairy farmers to get all relevant information about dairy animals from breed selection to management activities.

In order to improve the quality of milk, the programme has been emphasizing proper animal husbandry techniques in the entire programme area. During this quarter, a vaccination campaign by KVA took place in Gatanga milkshed. Since in Gatanga milkshed there is high adoption of zero grazing methodology, most farmers opted for home visits rather than taking all animals to the centers while others had their animals attended to by their gates to allow for easy work operation. The program recorded a tremendous turn out. A total of 32,954 cattle were vaccinated against Anthrax, Black Quarter and Lumpy Skin Disease in the following districts: Kandara, Kigumo, Maragwa, Makuyu, Mathioya, Kahuro and Kiharu.

During the period under review, A total of 13,856 new households joined the program resulting into a total of 262, 131 households having benefitted since the beginning of the program. It therefore shows that the program has achieved 87.4% of the targeted households. The female members benefiting formed 42.1% of all beneficiaries. The program continued providing information on input supply sources, linking producers with the suppliers, linking businesses/enterprises to financial service providers and helping the SBOs and service providers meet conditions to access credit. The KDSC program also provided market information and access to services and provided training and technical assistance to the producer groups. During the quarter under review, a total of 21 New SPs were linked with SBOs in the program area that gives the total number of SPs of 905 against the target of 500 by the end of the project (year 5). Most of these new SPs were recruited in Kericho milkshed (18 SPs) showing that there is still an opportunity to venture into especially the service providers that carry out dairy management activities.

The program through shows, farmer field schools, demos and exchange visits has been able to build the capacity of dairy farmers in dairy management technologies. During this reporting period, the program facilitated capacity building of over 7,421 dairy farmers resulting in a total of 97,855 farmers trained to

¹*KDSCP CLIN year ends in April 30 however KDSCP Implementation year follows USAID FY structure. KDSC program is currently operating in CLIN Year Four, which runs May 1, 2011 – April 30, 2012, and USAID Fiscal Year Five, which runs October 1, 2011 – September 30, 2012.*

date. This shows that the program has been able to achieve 64% of the entire project target even to date. Women accounted for 28.6% of those trained in the quarter.

The program further enabled 11,105 new members to access BDS services, inputs, technologies, and management practices during the quarter under review. The total number of farmers accessing BDS services by the end of this quarter therefore was 210,093 which accounts to 95.5% of the Year Five target.

During this period, KDSC program hosted the USAID Administrator in one of its milksheds. The administrator visited Kabete milkshed whereby the administrator and his entourage visited a dairy farmer in Limuru after which he visited Limuru Dairy Farmers cooperative society.

KDSC continues to build the capacity of various stakeholders on the BDS methodology. Through its facilitation, the sixth BDS conference was held at Sarova Whitesands Hotel, Mombasa, Kenya from 21st to 25th November 2011. During this conference, KDSC sponsored 8 representatives of federations at a cost of KShs 600,000 fully funded and further four MOLD officials partially funded to a total of KShs 150,000. During the quarter, KDSC introduced a total of 573 dairy farmers to credit facilities, resulting in a cumulative total of 43,387 dairy farmers translating to 96% of the Year 5 target. Out of all those who have received loans, 35% of them are women. The project area benefitted from the two coolers that were rehabilitated and another one cooler installed in Nyeri giving a total of 23 coolers installed or rehabilitated to date.

The main challenge reported during this quarter was volatility in the milk market. The inability by the dairy milk processors to absorb milk produced by farmers in the quarter, lead to non-collection of milk, low milk prices and delayed farmer payments. The other challenge was the sudden lowering of prices by NKCC has affected the performance of SBO'S by members opting to sell their milk to milk traders who offer better prices hence affecting the volumes. However, since the price reduction only affected those without supply contracts, it has reinforced the importance of having Supply Contracts with processors which can only be facilitated through cooperatives.

1.0 Introduction

Land O'Lakes is implementing the USAID Kenya Dairy Sector Competitiveness (KDSC) program with the financial support of the United States Agency for International Development (USAID). KDSC is a five-year program that aims to improve Kenya's dairy industry competitiveness. Under this program, Land O'Lakes employs a market-driven value chain approach, utilizing a Business Development Services (BDS) methodology. KDSC will help transform the Kenyan dairy industry into a globally competitive, regional market leader, with the overall goal of increasing smallholder household income from the sale of quality milk. Land O'Lakes is facilitating this transformation, while the industry stakeholders are leading it.

The program objectives are three-fold:

- Increase competitiveness of the Kenyan dairy sector through collaboration among sector stakeholders and increased capacity of public sector agencies to serve the needs of the sector;
- Increase marketing of milk meeting quality standards by producer-owned milk bulking/cooling businesses; and
- Enhance access to business development services and technologies.

In its implementation, the program pays particular attention to environmental and gender concerns and effects corrective action as appropriate. KDSC takes into account the varying roles, assets, knowledge and skills that men, women and youth bring to dairy farming. The program therefore facilitates the implementation of opportunities for integrating youth and family members into dairy value-chain economic activities.

Towards Strategic Objective 7

KDSC contributes to the USAID Strategic Objective 7.0 on "Increased Rural Household Incomes." The program is implemented through a range of activities grouped into three broad components. The components and the associated deliverables are:

Component I: Enhanced Capacity for Milk and Production Input Quality Certification and Market Promotion

Deliverables include:

- Increased smallholder household income
- Increased use of technology
- Improve and enact industry policies and acts that enhance competitiveness
- Develop and implement/enforce quality certification frameworks and work towards a graded payment system

- Dairy enterprises achieve national/international certifications and enforcing quality regulations on suppliers
- Increase feed marketed under new quality standards

Component 2: Dairy Smallholder Business Organization (SBO) Development

The key deliverables are:

- Producer organizations strengthened.
- Increased number of milk bulking centres (MBC) with Hazard Analysis and Critical Control Points (HACCP) and /or SBOs with national certifications.
- Increased raw milk sales by SBOs under agreements that pay premium for quality.
- Increased gross revenue of milk bulking/cooling businesses from sale of inputs and services other than milk.
- Increased number of SBOs transformed into sustainable businesses entities.
- Increased number of cooling units installed/rehabilitated by SBOs

Component 3: Availability of Dairy Business Development Services

Key outcomes/ impacts will include:

- Enhanced range of business services to producers.
- Increased value of services/inputs provided by business service providers.
- Increased number of smallholders purchasing private sector services at full commercial rates.
- New technologies or management practices made available for transfer.
- Increased number of dairy farmers receiving loans from financial service providers.
- Increased number of smallholders engaged in new, diversified dairy-related enterprises.
- Increased number of dairy farmers receiving short-term training.

Implementation Strategy and Key Activities

KDSC is implemented using innovative, international best practice approaches and methodologies that ensure achievement of expected results and sustainability of impacts long after the end of the program. Using local service providers and facilitators, Land O'Lakes, the implementing agency, supports market-based services/solutions, and action-oriented policy research to overcome both industry-level and enterprise-level constraints to competitiveness at key points along the dairy value chain. Industry stakeholders have since been engaged to identify competitiveness constraints, and propose solutions to these constraints.

2.0 Program Implementation

During the period under review, KDSC program has continued to address sector challenges, constraints and stakeholder concerns in all the milksheds and has realized significant achievements. Program efforts in the quarter especially focused on putting in place sustainable solutions and to put in place sustainability measures as an exit strategy.

The KDSC program has also ventured into marketing of milk through DTA as an expansion in domestic market – both institutional and informal- for the SBOs working with the program in a bid to stabilize milk price across seasons. To safeguard consumer safety, the program is looking into ways of working with the DTA to build the capacity of members on milk handling and hygiene. DTA has been very supportive to the dairy sector and has been able to carry out training on milk quality in all the milksheds in the country.

During the reporting period, the program embarked on the development and analysis of action plans in all the SBOs working with the project that had not completed their business plans by end of last quarter. Financial institutions especially Equity bank and Cooperative bank have been evaluating some of the business plans with an intention of funding some.

Detailed activities and achievements in the reporting period are summarized below and are organized by program component.

2.1 Component One: Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion

During the period under review, the program continued to build the capacity of producers to venture into other marketing avenues that will improve the uptake of their milk. This has been occasioned by a reduction in milk purchase by the processors who have also reduced the prices of milk. In Gatanga milkshed, a meeting was organized in conjunction with KDB during the quarter and brought together 25 traders from Muranga and Mukuyu. The program sensitized them on Value chain Development, collective marketing and BDS among DTAs. The KDB facilitated on quality control and the regulatory role of KDB. Those in attendance requested for another forum. Mr. Murira (an SP) who serves over 1500 farmers expressed satisfaction in the program operation and agreed to work closely with program to help increase the rural income through sale of increased quality milk. He nevertheless decried the declining prices yet the cost of production was increasing. In TransNzoia milkshed, DTA'S are offering major services to the farmers especially now that the milk prices have been lowered by the major milk buyers. A total of 260,000 liters was marketed by DTA'S during the month of December with the prices of milk offered ranging from Ksh 25-35. Kisako Cooperative in Marakwet has been supplying 12,400 liters at a buying price of Ksh 30. The area MP visited the group during the month and agreed to support them through CDF to improve their marketing channels.

In order to improve the quality of milk, the programme has been emphasizing on proper animal husbandry techniques in the entire programme area. During this quarter, a vaccination campaign by KVA took place in Gatanga milkshed. Since in Gatanga milkshed there is high adoption of zero grazing

methodology, most farmers opted for home visits rather than taking all animals to the centers while others had their animals attended to by their gates to allow for easy work operation. The program recorded a tremendous turn out. A total of 32,954 cattle were vaccinated against Anthrax, Black Quarter and Lumpy Skin Disease in the following districts: Kandara, Kigumo, Maragwa, Makuyu, Mathioya, Kahuro and Kiharu.

The program has continued to sensitize the farmers on the need to register livestock and do milk recording. With new requirements by KLBO to have all inspectors register with Breeder Societies before being allowed to register animals as well as standardization of charges, the animal registration process is running smoothly. In Gatanga milkshed, a total of 120 animals have been registered at Ichichi, Kikama, Kahuro and Kagaki. The program hopes to see several animals registered in the coming months since several dates have been set with SBOs. The process is running concurrently with training and tagging. In TransNzoia milkshed, KLBO activities in the region have improved with the advent of the new regional office and a staff member. KLBO staff was involved in training of SPS and MSWG members on importance of registration. The SPS, farmers and the KLBO staff agreed to have a serious program of registration of animals at the SBO level. The MSWG meeting passed a resolution together with KLBO to formulate a calendar where each group will have an opportunity to have the farmers register their animals. In Kericho milkshed, Kenya Livestock Breeders' Organisation (KLBO) carried out breed inspectors' training during this quarter at ACK Holly Trinity Kericho. 25 persons are expected to be trained. The training was been sponsored by GIZ and the trainees are only paying KES 4,000 registration fees.



Figure 1: Mr. Juma from KLBO talks to participants during MSWG meeting

The proposed Kericho Livestock Breeders' Show was discussed in the District Agriculture Committee (DAC) meeting held on 19th October, 2011. Reviving an annual agriculture show is one of the interventions being explored as a way of availing training and exposure for farmers in modern technologies. Stakeholders agreed to start with a breeders' show that can later evolve to encompass other sectors. DAC is a subcommittee of the District Development Committee and is tasked in handling agriculture and livestock development issues. The meeting was chaired by the DC's representative, DO I Mr. D, M Darusi.



Figure 2: Mr. Makongo, KDSCP Co-ordinator making his contribution in the DAC meeting

A meeting with Kabianga University in Kericho milkshed was held within this period to discuss their participation in the Program as earlier requested in the MSWG meeting. The Dean of Agriculture Prof. Michael Ogunyini, representing the University requested the Program to work with the University to develop demo farms to acceptable standards so that visitors can willingly pay entrance fees because of the value derived from such visits. At the same time the proposed Kericho Livestock Breeders' Show was discussed at length and it was proposed to be held during the next quarter in 2012. The Production & Marketing subcommittee team met the NKCC's Head of Production Mr. Geoffrey Bartenge during the period and this brought NKCC on board as the main sponsors of the show. Mr. Bartenge assured the team of NKCC's commitment in this endeavour and promised to send more officers to participate in a more rigorous planning meeting scheduled in order to make the show a reality.

In TransNzoia milkshed, the milk shed held the milk shed working group meeting which was attended by 51 stake holders derived from NGO'S ,SBO'S, Government ministries and milk marketers. The committees reported their findings and achievement, the notable one being the milk analysis laboratory and facilitation of milk marketing through federations. Those present also agreed to do vigorous follow up of CDF to facilitate repair of feeder roads to ensure the milk reaches the market. The meeting passed a resolution to: follow up on registration of animals at the group level with KLBO; to identify a milk containers supplier to start implementation of the KDB ban on plastic containers; all SBO'S to write formal letters to Kenya Seed Company requesting the supply of seeds and the number of demo farms for each interested group; and groups encouraged to start their own AI schemes to ensure AI is less expensive and efficient breeding without limitations on which sires to use.

Completion of Dairy Farmers Training Manual

During the quarter under review, KDSC has successfully completed the development of the Dairy Farmers Training Manual. This is a resource that is intended to enable dairy farmers to get all relevant information about dairy animals from breed selection to management activities.

2.2 Component 2: Develop Dairy Smallholder Business Organizations

KDSC has continued to promote dairy management activities in the program area. Due to the benefits gained by members of the SBOs working with the program as witnessed in the rural areas in which dairy is practised, there has been an increase in members joining the existing SBOs with an aim to reap the benefits especially those related to improved price of milk as well access to embedded services. During the quarter, the KDSC program continued linking Small Business Organizations (SBOs) to inputs and services to enable these organizations to grow their businesses. A total of 13,856 new households joined the program resulting into a total of 262, 131 households having benefitted since the beginning of the program. It therefore shows that the program has already achieved 87.4% of the targeted households. The female members benefiting formed 42.1% of all beneficiaries.

Program intervention has continued to record positive results through federation methodology. All the SBOs in the TransNzoia milkshed through KDSCP initiative have started marketing their milk through Cherangany Dairy Group to earn bonuses and also strategize on pooling and saving resources in readiness for acquisition of shares in the planned sale of NKCC by Government of Kenya (GoK). In Nakuru milkshed, leaders and farmers after several training have come to realize the strength of unity and forming federation to market their product together. After the meeting held at Milele in May and August 2011 members requested to be given time to digest the federation issues. SBO namely Kiplombe, Kiptoim, Sigoro Mogotio and Langas formed Baringo Farmers Society which recruits only dairy farmers to sell their raw milk together to NEW KCC, currently at Ksh.30. They have realized they cannot do business alone but they need one another. A benefit of improved price was realized as non-federation members sell their milk as low as 20 per litre.

During the quarter under review, all the SBOs in the TransNzoia milkshed through KDSCP initiative are marketing their milk through Cherangany Dairy Group (CDG) earning a Ksh 5 bonus and Ksh 2 for transport. CDG has signed an agreement to supply 15,000 liters of milk to NKCC which is lower than what was paid in September. CDG federation delivers up to 23,000 liters of milk a day though the lowering of milk prices by NKCC is likely to lower milk volumes in the coming month.

Federation has also yielded positive results in Lessos milkshed during this period. During the quarter and North Rift Federation Cooperative Society (NRFCS) signed MOU with NKCC of 31/= to deliver milk between 15,000 to 20,000 litres of milk every day. More members have been joining the NRFCS due to improved prices offered to then federation. 20 cents per litre of milk delivered is deducted to run the organization. In the month of October the milk delivery was 578,837Kg and the amount earned was Ksh 17,249,342. However, this was regarded as a drop in milk delivery and payment because of change for pricing from Ksh35 to 31. In the month of December North Rift signed another MOU with NKCC of 28/= per litre of milk every day and a total of 659 193 Kg was received and will earn Ksh 18 325 565 as shown in table 1.

Table 1: Performance of North Rift Federation

MONTH	KGS	BASIC PAY	TRANSPORT	BONUS	TOTALS
April	77,226	1,915,205	231,678	77,226	2,224,109
May	85,621	2,123,401	256,863	171,242	2,551,506
June	215,698	5,349,310	647,094	647,094	6,643,498
July	453,835	11,255,108	1,361,505	2,269,175	14,885,788
August	591,208	14,661,958	1,773,624	3,547,248	19,982,830
September	762,658	18,913,918	2,287,974	4,575,948	25,777,840
October	578,837	13,197,484	1,157,674	2,894,185	17,249,343
November	603,438	12,551,510	1,206,876	3,017,190	16,775,576
December	659,193	13,711,214	1,318,386	3,295,965	18,325,565

Due to reduced prices of milk in the area by NKCC and Brookside, there has been an increase in selling of milk to hawkers and DTA members. This has resulted in a reduction in quantity of milk delivered through the federation to the processors. As a result of this, the income reported through the federation has taken a downward trend from September 2011 to date as shown in Figure below. KDSC through its facilitators has been working on interventions that would result in increase in milk prices and it is believed that in the next quarter, there will be positive results to be reported.

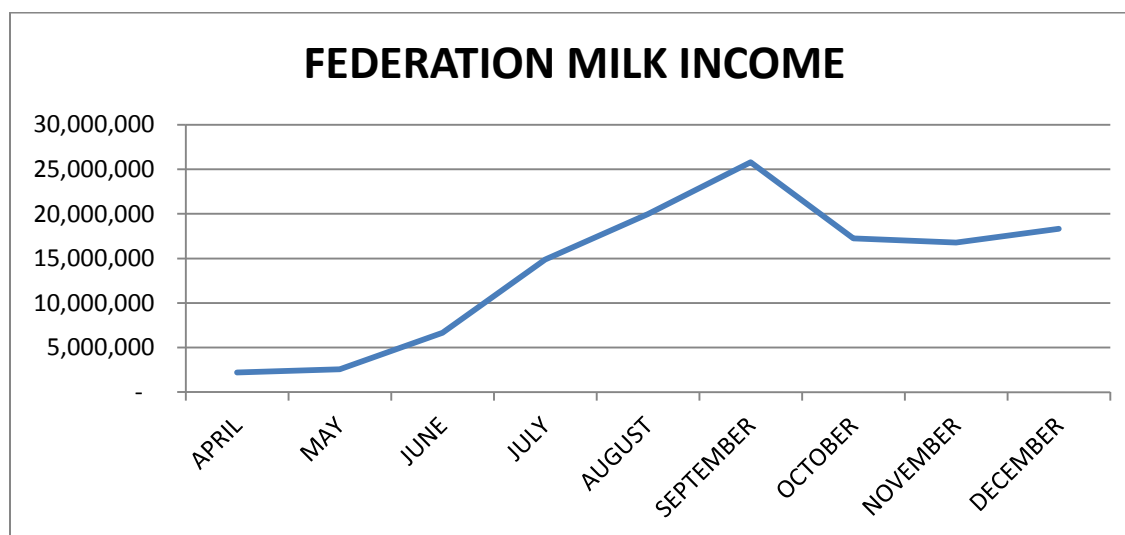


Figure 3: Performance of North Rift federation in terms of income

2.2.1 Facilitated working linkages between farmers the SBOs working with the KDSC program

The program continued providing information on input supply sources, linking producers with the suppliers, linking businesses/enterprises to financial service providers and helping the SBOs and service providers meet conditions to access credit. The KDSC program also provided market information and access to services and provided training and technical assistance to the producer groups. During the

quarter under review, a total of 21 New SPs were linked with SBOs in the program area that gives the total number of SPs of 905 against the target of 500 by the end of the project. Most of these new SPs were recruited in Kericho milkshed (18 SPs) showing that there is still an opportunity to venture into especially the service providers that carry out dairy management activities. This has been achieved due to overwhelming response by the SPs to business opportunities presented by the dairy sector. Due to the increased number of SPs there has been an increase in technological transfer resulting into increased purchase of dairy machinery, ICT accessories like digital weighing scales and computerization, pulverisers and chaff cutters. The SPs have also contributed in the increase of the number of beneficiaries and those trained in the program area.

2.2.2 Facilitated capacity building of over 7,421 dairy farmers in the quarter

The program through shows, farmer field schools, demos and exchange visits has been able to build the capacity of dairy farmers in dairy management technologies. During this reporting period, the program facilitated capacity building of over 7,421 dairy farmers resulting in a total of 97,855 farmers trained to date. This shows that the program has already achieved 64% of the entire project target. Women accounted for 28.6% of those trained in the quarter. The program further enabled 11,105 new members to access and BDS services, inputs, technologies, and management practices during the quarter under review. The total number of farmers accessing BDS services by the end of this quarter therefore was 210,093 which accounts for 95.5% of the Year Five target. Program interventions focused on training dairy farmers to equip them with the necessary technical skills to increase herd productivity and incomes. The training forums, organized in collaboration with key stakeholders such as private service providers, Ministry of Livestock extension personnel and Kenya Dairy Board (KDB) covered diverse topics such as feed/fodder production, appropriate feeding regimes, feed conservation and formulation, modern breeding techniques and milk handling hygiene. Other areas covered include infertility, dairy as a business and disease control. There was emphasis on the on-farm demonstration on feed conservation techniques to enable smallholders conserve feed to stabilize milk yield and farmer incomes.

KDSCP hosts Rajiv Shah: USAID Administrator to KDSC program sites

During this period, KDSC program hosted the USAID Administrator in one of its milksheds. The administrator visited KDSCP's Kabete milkshed whereby the administrator and his entourage visited a dairy farmer in Limuru after which he visited Limuru Dairy Farmers cooperative society. In his visit, Rajiv Shah inspected the development projects funded by USAID and implemented by Land O'Lakes through KDSC program to get to know how the project impacts on the beneficiaries. As shown in the picture below, Rajiv Shah gets to discuss one on one with the management of the LDFCS board to understand what activities they are carrying with the assistance of USAID funding.



Figure 4: Rajiv Shah talking to a board member with Mulinge Mukumbu (KDSC COP)

2.2.3 Increased uptake of technology

There has been a continued and steady uptake of IT and other technologies in all the milksheds. The program has been sensitizing SBO management on the need to move forward and install milk cooperative business software available for easier handling of bulk data. Uptake of IT is remarkably encouraging in the program area. Different SBOs have been able to purchase computers to hasten data handling. During the period under review, there have been concerted efforts by the program in Gatanga to popularize the biogas utilization in the area and this has led to majority farmers adopting new technologies in use of biogas units. In Nyeri milkshed, Brookside dairies installed a cooler in Othaya which is handling over 6,000kgs per day during the reporting period. At the same time, in Nyeri milkshed, KENFAP SPs have been educating farmers on the need to install biogas units and already one unit is finished and in use in Tetu Dairy, bringing the total number in the milkshed to 69 units.

During the quarter, service providers have promoted chaff cutters and generators that enable Farmers and bulking centres to perform dairy activities at optimum level. This is expected to improve their feed utilization efficiency/reduce feed wastage while at SBO levels reduce wastage. In Kabete milkshed, Limuru DFCS, the cooperative has adopted the IT systems in its operations. In this case, the milk is delivered and recorded by swiping directly into the farmer's automated card. Once data is stored in the data holder, it is then transferred into the computer for easier management. This has made payment

processing easier and more efficient. As shown in Figure 5, Rajiv Shah (Administrator, USAID) is taken through the IT operations by IT manager of LDFCS.



Figure 5: Rajiv Shah listens to IT Manager on the operations of IT systems in Limuru DFCS

2.3 Component 3: Increase Availability of Dairy Business Development Services

The KDSC implementation method focuses on building capacity of BDS providers, i.e., switching from assisting micro enterprises directly to ensuring sustainable access to services through functioning markets. To achieve this objective, and for effectiveness, outreach, and impact, the program uses a portfolio approach in provision of BDS. This entails working with multiple partners as BDS providers rather than work with one or just a few and also the capacity building of the providers to provide a range of services (with some embedded), rather than just one for increased effectiveness.

BDS conference

KDSC continues to build the capacity of various stakeholders on the BDS methodology. Through its facilitation, the sixth BDS conference was held at **Sarova Whitesands Hotel, Mombasa, Kenya** from 21st to 25th November 2011. During this conference, KDSC sponsored 8 representatives of federations at a cost of KShs 600,000 fully funded and further four MOLD officials partially funded to a total of KShs 150,000. The Conference trained members on the latest methodologies and practice for designing value-chain programs that incorporate strategies for sustainable impact. Participants learned how to design programs that result in *market-based solutions to MSME constraints* such as market access, input supply, technology/product development, management training, policy reform, and access to finance. Examples were used from enterprise development programs and practitioners in Kenya and the entire East African region. Some of the topics discussed in the conference included: Policy dialogue with

senior government officials; Knowledge sharing through presentations by various project implementing organizations; Learning on current best practice through presentations by industry experts both international and local; and Excellent networking opportunities as the conference attracts a wide range of enterprise development practitioners.

Financial Services to SPs and SBOs

During the quarter, KDSC introduced a total of 573 dairy farmers to credit facilities, resulting in a cumulative total of 43,387 dairy farmers translating to 96% of the Year 5 target. Out of all those who have received loans, 35% of them are women.

North Rift AI Providers Project (NRAIPP)

The group has continued to offer quality services both to the farmers and AI technicians by supply of semen, liquid nitrogen and other accessories. During the meeting held in the quarter, the chairman of the group briefed the AI technicians on the progress of the group and requested them to support him in provision of quality services to the farmers. The committee has agreed to manage AI tanks in the SBOs in collaboration with the officials to ensure continuous supply of quality semen. It was reported that the sale of semen improved during the quarter which was attributed to the AI group and is expected to improve further in the coming period. The group has written to the Registrar of Companies requesting to register a company.

The number of animals inseminated during the month improved compared to previous months due to improvement of pastures and training through field days and LFFS. North Rift AI Providers Project (NORAIPP) is vigorously marketing their services to Service Providers and farmers by providing semen and liquid nitrogen gas efficiently. Koitogos and Taito have started their AI schemes to bring services to the farmers by offering credit to the members. Seum and Cherangany both have successful AI schemes which are well equipped and are offering AI services by check-off system to farmers in Cherangany division and TransNzoia County general. Tarakwa Cooperative is being encouraged to equip the AI technician they had trained earlier to benefit from cheaper services and more efficiency. Marakwet which had only 1 AI technician when the program (KDSCP) started has now more than 10 technicians who need to be equipped through CDF and any by other means. The program organized for SPS meeting which was attended by 23 participants mainly AI technicians. AI technicians were encouraged to offer extra services to the farmers for them to be profitable. Through the program, all the SBOs are being encouraged to start their own AI schemes to ensure efficiency and reduce costs on semen which is hiked by AI technicians. The technicians and the SBOs will agree on arm service charges which will be paid by check-off system. The idea was welcomed by SPS as they now understand the importance of breeding to take farmers to the next level.



Figure 6: Mr. Pascal Chairman MSWG who is also the Manager in charge of the meeting

2.4 Environmental Degradation Mitigation Measures

Activities (at the farm, service providers and at bulking centre level) to mitigate management practices that may result in environmental degradation were also emphasized in the quarter. The KDSC program encouraged program beneficiaries to work towards sustainable management practices that reduce soil erosion, soil and water pollution, and emissions, among others, to safeguard the sectors' future contribution to national economic growth. This is in recognition of the fact that agriculture is and will be (in the short to medium term) the mainstay of Kenya's economy.

With respect to mitigating environmental degradation, during farmer trainings on disease control, emphasis was put on proper pesticide (cans) waste disposal through incineration or dumping in pit latrines to protect the environment. Drug withdrawal periods have been emphasized to be observed especially for mastitis cases. The project also trained dip attendants and part of the curriculum was the safe disposal of acaricide wastes and waste containers. In other areas, Biogas and Fodder tree & shrubs establishment to check on soil and water management were emphasized.

The program is also encouraging the farmers to prepare multipurpose trees and shrubs during the dry period to be transplanted during the dry season. A tree nursery in Kipsaina has been identified to supply the seedlings and seeds during the planting season for establishment in the farms. Three farmers have fully implemented biogas units. The program in conjunction with Norbrook (K) Ltd is training dip attendants on safe disposal of acaricides.

2.5 Gender and Youth intervention

Program efforts to promote gender and youth intervention have registered positive results. Members of Rugika Youth are dealing in fodder growing, mostly Napier. The young farmers in the milkshed have taken conservation matters seriously, as many have planted fodder trees and wind breakers, made bench terraces to control soil erosion and to increase ground cover. The Program has continued to encourage Tongaren Dairy Group to be more aggressive in dairy activities. This group is also offering computer services to the SBO as the youth have a computer school. The members have been encouraged to invest in the dairy business and commercial hay making though further training is required. The main challenge of the youth is their availability as they are sparsely distributed in their activities; the project will work with them to address this challenge. In order to address this challenge, KDSCP has been using sports as an avenue to get youths in these project areas involved in dairy activities. This has been designed in such a way that dairy issues are discussed before the beginning of sports activities.

Gender is a factor the program continues to emphasize, especially when it comes to the decision-making process. The program is mobilizing women in the milk sheds who are now fully participating in dairy activities. The Kitale women's initiative has appreciated the program in which they coordinate groups of women who are willing to join the already existing SBOs within the milkshed and most of them are already participating in dairy farming. In pursuant to gender roles, all the project meetings and the FFS that were being conducted in the quarter have been tailored to match with appropriate times as agreed upon by the members both men and women, the women in particular prefer morning or afternoon (not early morning or late evening). This has been strictly adhered to in the planning of the FFS and SBOs meetings.

In Lessos milk shed, the program has observed that fewer women are being trained in the FFS, this is attributed to the aspect of dairy owner cum manager being the male in the family. This has led to mobilization of women to attend such meetings against the cultural values that prefer men to attend meetings unlike women. As a result of this campaign, there has been some progress in Lessos with women coming into LFFS.

2.6 Challenges

Volatile milk market: Another challenge in the quarter has been the inability of the dairy milk processors to absorb milk produced by farmers in the quarter, leading to non-collection of milk in some cases, low milk prices and delayed farmer payments. In Lessos milkshed, NKCC reduced the price of milk for those with contracts from KShs 35 to KShs 22 per litre of milk. However, those selling through hawkers got much lower prices from NKCC.

Market distortion: Some development programs being implemented in the program area continue to perpetuate dependency attitudes by paying farmers and funding purchases or giving away inputs and dairy equipment. Some stakeholders still expect payments from the project for attending capacity building sessions, while some service providers demand payment to train farmers. The program has been able to put in place measures to address this challenge through capacity building of the dairy farmers. KDSCP uses an approach in which farmers who are members of the dairy societies make contributions in order to acquire cooling plants from their milk proceeds. At the same time, the

program has established a mechanism in which dairy farmers are linked directly to service providers who offer services and inputs to these farmers and payments are made through check-off system on behalf of the farmers by the processors. This has enabled members to understand that whenever they want to access any service, it is them who bear the cost.

Milk collection infrastructure: The program has continued to advise farmers on the need to have their own cooling units in their SBOs. However, based on the financial requirements, there has been a slow uptake of this aspect in the project area. Members of some of the SBOs have been able to contribute towards this and have managed to purchase cooling units. During the quarter under review, two coolers were rehabilitated and another one cooler installed in Nyeri giving a total of 23 coolers installed or rehabilitated to date. However, majority of the cooperatives have not been successful in this. To address this, the program has embarked on involving other development partners that include the government and banks to provide financial assistance. Constituency development fund has been utilized in some of the areas while at the same time, the program has linked SBOs with financial institutions in order to acquire loans. The program has also contributed by providing technical assistance to the cooperatives towards the development of viable and bankable business plans that can expedite the loan processing.

The approach of BDS that involves service providers as the main trainers has resulted into slow dissemination of information to dairy farmers in some of the areas in which the project operate. Some of the service providers have taken a longer time than expected to embrace farmer training as an embedded service. This is because since training does not have direct economic returns on investment by the SPs, some of the SPs have been seeking for payment before delivering any training. The program has continued to build the capacity of SPs on the benefits of including training as a component of the services they deliver to dairy farmers.

2.7 Lessons Learnt

Sudden lowering of prices by NKCC, a major raw milk buyer has affected the performance of SBO'S by members opting to sell their milk to milk traders who offer better prices hence affecting the volumes. However, since the price reduction only affected those without supply contracts, it has reinforced the importance of having Supply Contracts with processors which can only be facilitated through cooperatives.

The organization of farmer groups into business organizations has enabled dairy producers to increase their bargaining power with the processors. The formation of federations has resulted in increased milk prices at the farmer level and the same time qualifying of members for bonuses given by processors.

Increased capacity building of service providers has resulted in increased sales of their products. Linkages facilitated by KDSCP program between service providers and farmer cooperatives have enabled farmers to invest in technologies like digital weighing scales, computerization and biogas equipment at affordable rate. This has led to realization of the objectives of the program in enhancing development of small business organizations.

Collaboration with other agencies has yielded positive results for the program. There has been continuous engagement of other stakeholders in the industry which has culminated into reaching out to many dairy farmers with range of benefits. Some of the stakeholders include FHI, KDB, DTA and ministry of livestock development.

2.8 Work plan for Year 4²

Table 2: Work plan for Year 4

No.	FY12 Quarter Month	CLIN Year 4			Anticipated Outcomes
		Q 2			
		4	5	6	
1.0	Component One – Enhance capacity for milk production input quality certification and market promotion				
	Activity 1.1 Strengthen the Kenya Dairy Sector Competitiveness Task Force and Donor Working Group on Competitiveness				
1.1.1	Hold Implementers Working Group Meeting		x		Synergy and leveraging funds
1.1.2	Hold Task Force Meetings	x		x	Minutes, action plan initiatives implemented
1.1.3	Provide support to the Dairy Task force on subcommittees and regional working group coordination. Capacity building on consensus building	x		x	Minutes and action plans implemented
	Activity 1.2 Identify and Mobilize Resources to Implement Action Plans				
1.2.1	Prioritize Action Plan initiatives	x			Posted on the KDSCP/KDB websites
1.2.2	Meet with stakeholders and donors to mobilize funding for high priority initiatives e.g. (dairy animal census)		x		\$ 20 million Leveraged
1.2.3	Implement Action Plan solutions	x	x	x	All prioritized action plans implemented
	Activity 1.3 Develop Quality Standards and Support Policy Reform Initiatives				
1.3.1	Sensitize Dairy stakeholders on the reviewed key Policy Reform initiatives as part of the accomplishment of the Action Plan	x		x	4 stakeholders workshops Held at National or Regional level
1.3.4	KDSC team will facilitate the Task force to Promote differential payment for quality	x	x	x	Quality certification framework developed, promoted and implemented
1.3.5	KDSC team will continue to work closely with Laboratories/AKFEMA to build capacity of members (LTA 20 days)	x	x	x	30% increase in quantity feed marketed under new feed quality standards
1.3.6	Publicize policy briefs semi annually	x			Policy briefs developed and uploaded on the website
1.3.9	Continue to promote the Data Base of service providers with raw milk testing instrumentation for MCCs and develop a sustainable way of acquisition			x	Populate the Farmer and livestock Portal and promote the portal
1.3.10	Capacity building of Laboratories		x		Sensitization of Laboratories on the benefits of International accreditation and capacity building towards accreditation with 17025 certification
	Activity 1.4 Promote Market Expansion of Milk and Value-Added Dairy Products				
1.4.1	KDSC team will support industry-led quality promotions via Action Plan		x	x	Generic consumption campaigns
1.4.2	KDSC team will pursue the dissemination and implementation of the Master plan (TA 20 days)			x	Activities stream lining the Dairy sector
1.4.3	Support School Milk Program initiatives		x		Over 500 schools / 10 processors participating

² Workplan corresponds to the current CLIN Year.

	Activity 1.5 Facilitate Institutional and Association Capacity Building				
1.5.1	Use competitive grants directed at local firms to provide technical assistance to dairy related institutions and associations	x	x	x	Improved performance of at least 20 Dairy related supported institutions
2.0	2.0 Component Two - Develop Dairy Smallholder Business Organizations (SBOs)				
	Activity 2.1 Identify Smallholder Business Organizations (SBOs) for KDSC Interventions				
2.1.2	Cooling plants installed or rehabilitated		x	x	15 additional Cooling units installed and or rehabilitated
2.1.3	Catalogue Milk Shed information on the KDSCP Website		x		Increased efficiency and production of milk
	Activity 2.2 Technical Assistance and Capacity building to SBOs				
2.2.1	Strengthen businesses and management skills of SBOs	x	x	x	All SBOs strengthened. Increased SBOs operational efficiency
2.2.2	Strengthen linkages between SBOs, processors and SPs	x	x	x	40% increase in production and returns on high quality milk
	Activity 2.3 Promote Solutions and Create SBO Business Plans and Milk shed Action Plans				
2.3.1	Facilitate Business Plans for targeted SBOs	x	x	x	50 additional SBOs transformed into substantial business entities above the break-even point
2.3.2	Present Final SBO Assessment to Milk shed Action Planning Workshops and form Milk shed Task Forces			x	At least 20 milk shed working group meetings held and Minutes received
	Activity 2.4 Promote Embedded Services within Dairy SBOs and Processors				
2.4.1	Capacity building of the revived Kenya Dairy processors Association	x	x	x	Functioning KDPA continuing with semi-annual meetings and supporting Members
2.4.2	Assist selected milk sheds to pilot new services	x	x	x	20% increase in gross revenue of milk bulking centers businesses from sale of input and services other than milk cooling
2.4.3	Assist processors to deliver embedded services for SBOs		x	x	At least 5 additional and 10 existing Processors offering Embedded services
2.4.4	Develop SBO operational and service provision best practices and post on KDSC website			x	SBO operational and SP best practices documented and shared
	Activity 2.5 Encourage Quality-Based Systems and Contracts				
2.5.5	Link processors and SBOs to quality certification and assurance providers as well as financial service providers			x	30 additional MBCs with HACCP and or National certification
	Activity 2.6 Coordinate and Leverage Resources for SBO Development Initiatives	x	x	x	\$ 20 million Leveraged
3.0	3.0 Component Three - Increase Availability of Dairy Business Development Services				
	Activity 3.1 Identify Enterprise level BDS constraints and opportunities				
3.1.1	Needs assessment for new BDSP	x			100 additional BDSP supported and Linked to Beneficiaries
3.1.2	Capacity building of existing and new BSPs		x		200 BSPs will continue to be supported
	Activity 3.2. Needs analysis for Dairy Industry BSPs				
3.2.1	Conduct an OCA for Processors			x	5 additional processors
3.2.2	Capacity Building of processors			x	Capacity building of 5 additional processors
	Activity 3.3 Promote Accreditation of and Standards for				

	Dairy Service Providers				
3.3.1	Identify and promote best accreditation practices and service standards		x	x	10% increase in Value of services/inputs provided by BSPs
	Activity 3.4 Create Directory of Business Services Providers for Dairy Industry				
3.4.1	Continue to Solicit BSP corporate capability statements	x	x	x	Directory of the Livestock and famers uploaded in the e-portal with enterprises providing business services and producers
3.4.2	Continue to Confirm legal registration of BSP created and added to the directory	x	x	x	A growing Data base shared with stakeholders
3.4.3	KDSC team will populate BSP directory database and make directory public via project and Dairy Market Information websites	x	x	x	100,000 small holders purchasing private sector services at full commercial rates
	Activity 3.5 Forge Business-to-Business Linkages				
3.5.1	Conduct Business Solutions events in targeted milk sheds such as Gender and youth sensitization awareness campaigns	x	x	x	216000 small holder farmers engaged in new, diversified dairy related enterprises as a result of KDSCP interventions
	Activity 3.7 Build Capacity of BDS Facilitators				
3.7.1	Develop and disseminate BDS delivery of specialized services to SBOs, SPs and institutions			x	5 Specialized services delivered to SBOs/BDSP or institutions
3.7.2	Capacity Building of Facilitators	x		x	4 Facilitators supported with skills on Technical development related to program activities
3.7.3	Facilitate complex BDS services through Competitive Sub-awards		x		100,000 Dairy Farmers receiving short term training (30% being women)
	Activity 3.8 Stimulate Value Chain Financing				
3.8.1	Support MFIs/SACCOs to develop innovative financial services/ products			x	20,000 additional farmers receiving loans from Financial service providers (30% being women)
3.8.2	Facilitate development of innovative financial services through Competitive Sub-awards			x	5 Financial products developed
	Activity 3.9 Build Capacity of New and Existing Business Services Providers				
3.9.1	Train BSPs and smallholders /SBOs			x	11 new technologies or management practices made available for transfer to additional SBOs/SPSs

3.0 Performance Data Table

Impacts					
Performance Indicator	Baseline Value	CLIN Year 4		Cumulative Actual	Comments
		Cumulative Annual Target	Actual – Q1 (FY 2012)		
Household level impacts					
Number of rural households benefiting	0	300,000	13,856	262,131	The program has expanded into Kabete milkshed after changing the team leader and this has realized increase in number of households recruited into the program. This will boost the number of beneficiaries. The milkshed has great potential and will increase the active membership of those participating in the project. Female beneficiaries account for 42.1%.
Sub-Sector Level Impacts					
Total volume of milk purchased from smallholder dairy farmers (MT)	193,453	247,453	217,044	217,044	There was an increase in volumes sold by farmers in the quarter due to improved productivity in the program area as compared to similar seasons in the past. This stability can be attributed to farmers adopting program-promoted productivity enhancing technologies with the onset of rains. The quarter saw serious price reduction that resulted in low value received at the farmer level.
Total value of milk purchased from smallholder dairy farmers (US Dollar)	49.91M	62.61M	56.0M	56.0M	
Number of jobs created in the value chain	0	36,000	075	14702	There are jobs resulting from investment in embedded service provision by SBOs and from new business development providers – including new AI providers.
Number of producers accessing/ receiving/ utilizing BDS services, inputs, technologies, and management practices	0	220,000	11,105	210,093	The program will surpass the target by the end of the year. The program has planned to continue linking new farmers with service providers in all the 8 milk sheds.
Component I - Enhance Capacity for Milk and Production Input Quality Certification and Market Promotion					
Number of Quality certification	0	2	1	1	Good Manufacturing Practice manual and code of hygienic practices

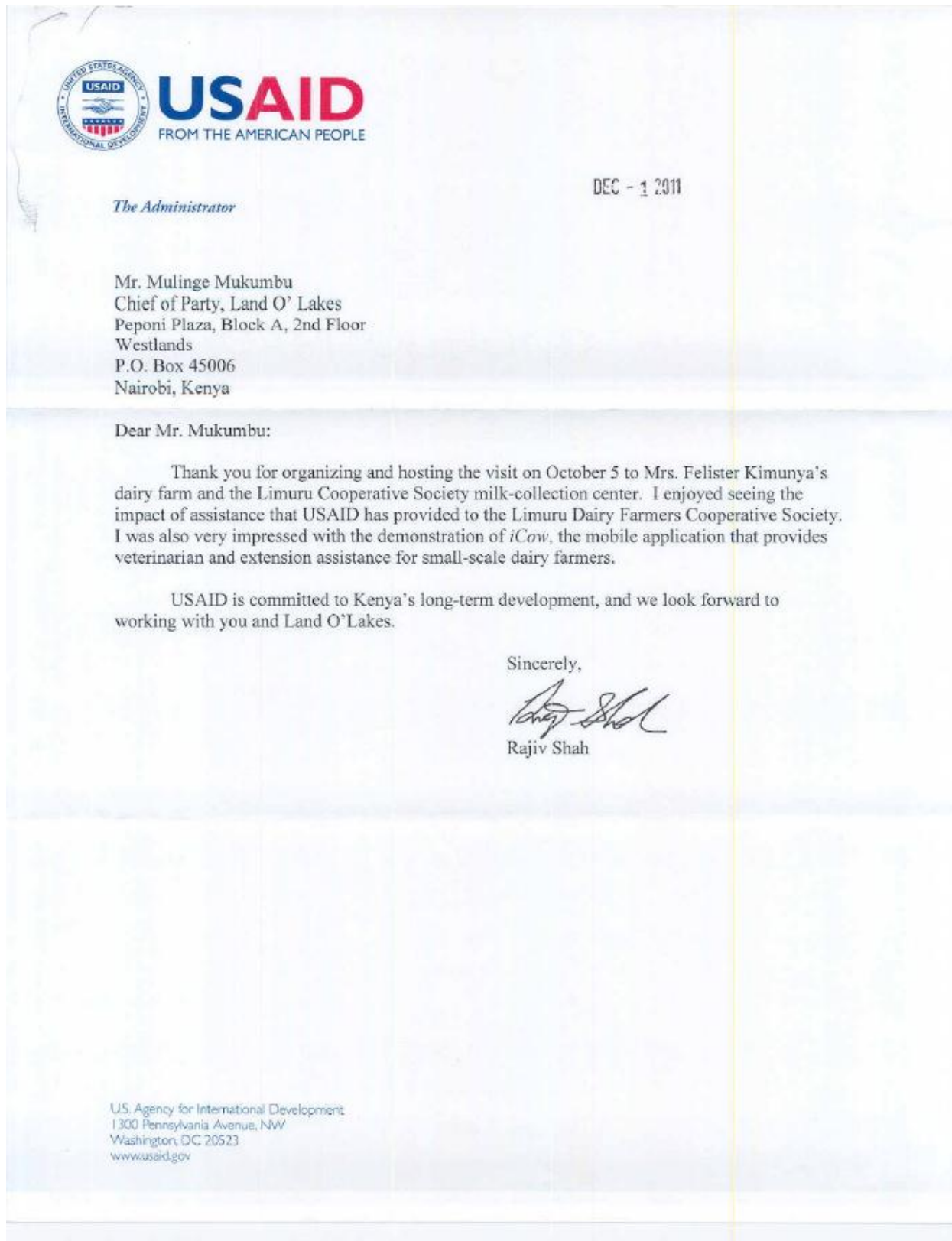
Impacts					
Performance Indicator	Baseline Value	CLIN Year 4		Cumulative Actual	Comments
		Cumulative Annual Target	Actual – Q1 (FY 2012)		
frameworks (Milk product, Animal feeds) developed, implemented/enforced					officially launched as Kenyan standards to improve quality of milk produced
Total Value of non-project resources leveraged (US \$)	\$0m	\$25M	0	\$25.52M	During this quarter, there were minimal activities that cost farmers much as it was characterised by a lot of festivities
Component 2 - Dairy Smallholder Business Organization (SBO) Development					
Number of producer organizations strengthened	0	120	0	124	The program is currently working with 124 SBOs in the eight milk sheds and three sector wide organizations and 10 milk marketing federations. All the SBOs were capacity built in the reporting period. We have therefore surpassed the program year five targets.
Number of SBOs/MBCs with HACCP and/or national certification	0	45	0	69	These include SBOs trained by DTI, and bulking centers installed by Brookside, NKCC and the private partners
Number of SBO/MBCs transformed into sustainable business entities	0	60	0	124	SBOs that have business plans implemented together with those whose management attended training on quality issues have acquired national certification. Processors have also achieved this certification in their milk chilling plants.
Number of cooling units installed/rehabilitated in SBO/MBCs (Number)	0	35	3	23	Two cooling tanks were rehabilitated in Nyeri milkshed and one new one installed
Component 3 - Availability of Dairy Business Development Services					
Number of firms providing new business services to producers (Number)	0	500	21	905	Program activities have focused on embedded service provision to increase the sales volume and revenues for the providers. AI providers are trained on feeds & feeding and feed conservation.
Dairy farmers receiving loans from financial service providers	0	45,000	573	42814	Private AI service providers and SBOs working with the program have benefitted from program linkages with financial service providers.
Number of producers	0	153,000	7,421	97,855	Service providers have taken a longer

Impacts					
Performance Indicator	Baseline Value	CLIN Year 4		Cumulative Actual	Comments
		Cumulative Annual Target	Actual – Q1 (FY 2012)		
receiving short-term training					time than expected to embrace farmer training as an embedded service. This will be sorted out in the next quarter. Women accounted for 40% of all those trained

4.0 Appendix I: Financial Report

Kenya Dairy Sector Competitiveness Program				
Contract No. 623-C-00-08-00020-00				
Quarterly Financial Report December 2011				
		Budget	Actual Expenditures thru December 2011	Remaining Funds as of January 2012
CLIN One (Year 1)				
Total Estimated Costs	\$	1,902,995	\$	1,902,995
Fixed Fee	\$	20,324	\$	20,324
Total Estimate Cost Plus Fixed fee	\$	1,923,319	\$	1,923,319
CLIN Two (Year 2)				
Total Estimated Costs	\$	2,183,292	\$	2,183,292
Fixed Fee	\$	20,607	\$	20,607
Total Estimate Cost Plus Fixed fee	\$	2,203,899	\$	2,203,899
CLIN Three (Year 3)*				
Total Estimated Costs	\$	2,229,663	\$	2,229,251
Fixed Fee	\$	24,372	\$	24,368
Total Estimate Cost Plus Fixed fee	\$	2,254,035	\$	2,253,619
CLIN Four (Year 4)**				
Total Estimated Costs	\$	1,555,543	\$	722,854
Fixed Fee	\$	16,261	\$	7,301
Total Estimate Cost Plus Fixed fee	\$	1,571,804	\$	730,155
CLIN Five (Year 5)				
Total Estimated Costs	\$	1,032,815	\$	-
Fixed Fee	\$	14,128	\$	-
Total Estimate Cost Plus Fixed fee	\$	1,046,943	\$	-
Total Reimbursable Costs	\$	8,904,308	\$	7,038,392
Total Reimbursable Fixed Fee	\$	95,692	\$	72,600
Total Reimbursable Estimated Cost Plus Fixed Fee	\$	9,000,000	\$	7,110,992
* MOD # 8 Transferred \$ 64,865.11 from CLIN 1 to CLIN 3				
** CLIN 4 Expenditures began May 1, 2011 through April 2012				

Appendix 2: Letters of Appreciation



The Dairy Master Plan was developed in a participatory approach with inputs from stakeholders in dairy value chain, industry experts and enablers. The document describes the status, constraints, potential opportunities, strategies and action plan to transform and revitalize the dairy sub sector.

I therefore wish, on behalf of the Ministry of Livestock Development, to express my sincere appreciation and acknowledgement of the final draft of DMPII which was formulated through combined efforts of the DTF, and other stake holders in the Dairy value chain. The team did a commendable job from the design of guideline framework up to the formulation process. The support you gave to the formulation of this document through financial and technical assistance cannot be over-emphasized.

The Role played by "LAND O LAKES", Inc., our international development partner is really recognized by the Ministry.

The Ministry also wishes to acknowledge the efforts and valuable comments made by the Dairy Task Force members and the Dairy Technical Sub-committees experts at every stage of the Dairy Master Plan production. Indeed, they have made compiling the document a success. Their technical contribution and complete review of the final version of the document is highly lauded and appreciated.

Finally the Ministry is indebted to The Animal Resources Consultancy Ltd for steering the whole process of documentation, presentation at every stage of the write up and taking time to incorporate the views and comments of all the stakeholders.

It is my positive expectation that the DMP will be used as a road map to transform the dairy sub sector. I call upon all our stakeholders and ministry staff to work together in achieving the set objectives of the dairy sub sector contained in Our Strategic Plan and this DMPII.

After the completion of the Master Plan, we next need to launch and disseminate it and you will be called upon to contribute.

Yours

Sincerely,
Kenneth M. Lusaka

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